



Howard County

Internal Memorandum

Subject: Multi-Year Requirements Contract Natural Gas Supply Services
With Constellation New Energy-Gas Division, LLC

Date: February 12, 2008

To: Lonnie Robbins, Chief Administrative Officer

From: James Irvin, Director
Department of Public Works

Background

Howard County governmental facilities utilize approximately 19,000 dekatherms of natural gas annually to provide heat to their occupants, at an estimated annual cost of \$216,000.

Howard County has been purchasing its natural gas requirements through the Baltimore Regional Cooperative Purchasing Committee (BRCPC) for the past five years.

BRCPC is a purchasing consortium consisting of county and local government jurisdictions, public schools and community colleges in the Central Maryland region. It is a subset of the Baltimore Metropolitan Council, for which Howard County has been an active participant since its inception.

In the previous five years BRCPC had been utilizing the State of Maryland's competitively awarded natural gas supply contract to meet the requirements of its members. Recently, in its review of the effectiveness of its natural gas purchasing strategies, BRCPC concluded that a different approach could better meet the cost, budget programming, and price risk management objectives of its constituent members. Accordingly, BRCPC decided to utilize a new strategy for procuring natural gas that was patterned after its successful purchasing structure for buying electric supply.

The new strategy involved entering into a contract with a licensed gas supply contractor, where the contractor would act as BRCPC's agent in the transaction of block purchases of gas supply and interstate transportation capacity. The new strategy treats all of its natural gas accounts (from each of its members) as essentially one wholesale account. Forward price commitments in monthly standard quantities (10,000 dths) will be purchased over time (dollar cost averaging approach) to achieve price stability. Energy price risk will be managed in conjunction with an approved risk management policy and price objectives. This strategy makes commitments for specific levels of gas supply over different multi-year periods, as appropriate to meet the different objectives.

Multi-Year Contract Issue

In order to implement this new procurement strategy, BRCPC (solicitation was issued by Baltimore County) issued Request for Proposal #206132 for a natural gas supply contractor, Constellation New Energy-Gas Division, LLC submitted a proposal, and was competitively selected by BRCPC to be awarded the contract.

As part of this procurement process, each BRCPC member had to execute a duplicate contract with Constellation New Energy-Gas Division, LLC. The initial contract period was for one year (May 16, 2007 through May 15, 2008) with four one-year automatic renewal periods, unless notice is given to the contractor that the contract is not renewed. Based on legal counsel review, it was determined that the automatic renewal provision, in effect, constitutes a multi-year contract and, by law, all multi-year contracts require County Council approval. Legal counsel therefore stipulated that before any of the contract renewal provisions could be implemented, the County Council must approve the renewal process. If the Council does not approve the renewal process, the County participation in the BRCPC procurement process will be terminated.

Enclosed is the Constellation New Energy-Gas Division, LLC contract for presentation to the County Council as an attachment to the legislation:

The solicitation was issued by Baltimore County on behalf of BRCPC in January 2007, a copy of which is attached to the contract. Proposals were received on February 28, 2007 and the award recommendation made in April 2007.

If you have any questions related to this multi-year contract, please contact David Loudermilk on x6139. Thank you for your assistance.

Attachments

cc: Darla Herbold
Lonnie Robbins